



Linda S. Adams  
Secretary for  
Environmental Protection

## Air Resources Board

Mary D. Nichols, Chairman  
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Sacramento, California 95812 • [www.arb.ca.gov](http://www.arb.ca.gov)



Arnold Schwarzenegger  
Governor

November 25, 2008

Mr. Jack Broadbent  
Executive Officer, Air Pollution Control Officer  
Bay Area Air Quality Management District  
939 Ellis Street  
San Francisco, California 94109

Dear Mr. Broadbent:

The California Air Resources Board (ARB) and the Department of Finance Office of State Audits and Evaluations (DoF) recently conducted a follow-up audit of the Bay Area Air Quality Management District's (BAAQMD or District) implementation of the Carl Moyer Air Quality Standards Attainment Program (Carl Moyer Program) and Lower-Emission School Bus Program (School Bus Program). The purpose of this follow-up audit was to confirm that the District had sufficiently addressed program deficiencies identified in ARB and DoF's 2007 audit. ARB is pleased to inform you that the BAAQMD has adequately addressed these deficiencies, and substantially improved overall operation of their Carl Moyer and School Bus Programs. However, ARB has identified a few issues in both programs that require District staff attention.

Consistent with ARB's initial audit of the District programs in 2007, ARB and DoF worked in close coordination for this follow-up audit. However, each agency employed different methods and looked at different aspects of the District's operations. This letter addresses ARB's portion of the audit. DoF will issue a separate audit report.

The follow-up audit began on May 6, 2008 and concluded with an exit interview on September 8, 2008. The audit included a review of the District's progression addressing findings identified in the 2007 audit. In addition, a project level review of all years of the Carl Moyer Program and a full programmatic review of fiscal years (FY) 2005/2006, 2006/2007, and 2007/2008, along with Lower-Emission School Bus Program FY 2005/2006, were completed. A total of 36 Carl Moyer Program project files, 12 Voluntary Accelerated Vehicle Retirement project files, and 2 School Bus Program files were reviewed by ARB audit staff.

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The most significant finding in ARB's 2007 audit was an overall deficiency in operation of the District's Carl Moyer Program. The District developed a remediation plan to address this deficiency, and immediately acted on this plan. A comprehensive review of all District Carl Moyer Program processes and procedures was performed. The District developed and enacted several mechanisms to improve the system, established a revised Policies and Procedures Manual reflecting the District's improvements in Program operation, and incorporated a checklist system for project files to ensure file completeness. The District also increased staff and utilized consultants to assist in completing the remediation plan.

The District has made great strides to rectify deficiencies in the operation of its Carl Moyer Program, but must continue its mitigation efforts on items such as cost-effectiveness calculations, amendments to contracts, and file documentation. These actions will keep the District on target to complete mitigation of 2007 audit findings six months earlier than required.

The follow-up audit identified two issues in the School Bus Program that require action by the District. The predominant issue was that the District failed to expend approximately \$1.6 million in School Bus Program retrofit funds in FYs 2000/2001 and 2005/2006. These funds were returned to the State too late to be reallocated to other districts for eligible School Bus Program projects. To address this issue, ARB is requiring the District to follow a remediation plan submitted by the BAAQMD to ARB on September 22, 2008. This plan strengthens the District's commitment to accepting and completing future retrofit projects, and includes ARB's requirement for the District to seek out retrofit projects equivalent to 25% of their FY 2008 School Bus allocation. This will help to compensate for foregone retrofit projects associated with previous School Bus Program funding.

The secondary issue identified in the School Bus Program involved project contract language. The contract language regarding when a project may begin conflicted with the current School Bus Guidelines by allowing project work to begin prior to contract execution. To address this issue, ARB is requiring the District to amend School Bus boilerplate contract language to align with School Bus Guidelines and not allow work to begin prior to contract execution.

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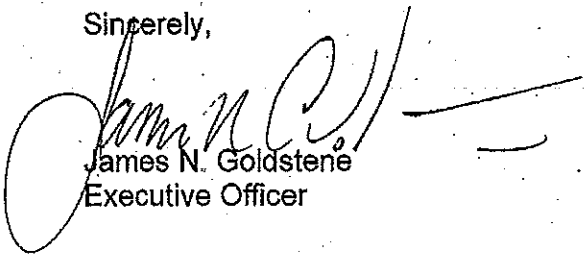
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In addition, ARB is recommending some changes to assist in the District's continued improvement of both the Carl Moyer and School Bus Program operations. First, the BAAQMD should consider a more regular and thorough reporting of progress on Carl Moyer and School Bus Program projects under contract to the District's Board. Second, the District should create a process to re-open a Request for Proposal, when needed, to ensure sufficient projects to fulfill a Carl Moyer Program funding cycle. Finally, the District should maintain a backup list of eligible Carl Moyer and School Bus Program projects and be prepared to substitute projects from this list, should any originally selected projects fall out.

The BAAQMD has 30 days upon receipt of this letter to provide a written response. After this time, both this letter and the District's response will be made public and posted on ARB's Carl Moyer Program website. The District is encouraged to also post these documents on its website.

Overall, we are impressed with the progress that the BAAQMD has made in improving operation of their Carl Moyer Program. We look forward to continue working with the District to ensure that their Carl Moyer and School Bus Programs have continued success in achieving significant emission reductions and improving air quality. If you have any questions, please contact me at (916) 445-8449 or contact Mr. Jack Kitowski, Chief, at (916) 323-6169 or email [jkitowski@arb.ca.gov](mailto:jkitowski@arb.ca.gov).

Sincerely,



James N. Goldstene  
Executive Officer

cc: Mr. Jeffrey McKay  
Chief Financial Officer  
Bay Area Air Quality Management District  
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Mr. Jack Kitowski, Chief  
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